



EX PARTE OR LATE FILED

June 2, 1999

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas,  
Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

Re: Written Ex Parte Presentation  
CC Docket Nos. 98-177, 98-81 and 96-150, WT Docket No. 96-198 and ASD File No. 98-64

Dear Ms. Salas:

On April 21, 1999, the Common Carrier Bureau held a workshop to solicit ideas on reform initiatives that could be undertaken in Phase I of its two-phase comprehensive review of the Commission's accounting rules and the reporting requirements of the Automated Reporting Management Information System (ARMIS).<sup>1</sup> The workshop was limited to three areas of discussion. USTA urged the Bureau to eliminate the Part 32 expense matrix, streamline the Part 64 audit requirements and modify the ARMIS reports by streamlining ARMIS 43-02 and eliminating the ARMIS 495 A and B reports. This ex parte presentation responds to questions raised during the Workshop and also proposes additional items that should be included in the Bureau's review of the rules.

During the workshop, the Bureau requested additional information as to whether the reporting entity is the same for the ARMIS 43-02 and the Securities and Exchange Commission's 10-K report. Attachment 1 provides a comparison of the reporting entity for the two reports. As USTA proposed in its biennial review petition, the Bureau could eliminate the majority of the schedules included in the ARMIS 43-02 in order to reduce duplication with the 10-K and to reduce unnecessary detail without affecting the Commission's oversight or enforcement capability.

No. of Copies rec'd 019  
List A B C D E

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<sup>1</sup> Common Carrier Bureau Announces Agenda for Initial Workshop for Phase I of the Comprehensive Review of Accounting and Reporting Requirements and Treatment of Ex Parte Presentations in Related Proceedings, Public Notice, DA 99-758 (rel. April 19, 1999).

Regarding the Part 64 audit, the ARMIS 43-03 report must be adjusted for financial audit results to the extent the results impact nonregulated operations either individually or in the aggregate by \$1 million or more. If the Commission continues with the Fairly Presents Financial audit, USTA recommends that the adjustment occur only if the results of the audit impact nonregulated operations by \$1 million or 2 percent of nonregulated operating expense, whichever is higher.

In addition, when aggregating the Part 64 audit results, USTA recommends that items less than 5 percent of the materiality threshold should not be aggregated. For example, a materiality threshold of \$1 million would not require transactions that are \$50,000 or less to be aggregated. A materiality threshold of \$10 million would not require transactions that are \$500,000 or less to be aggregated. Attachment 2 uses the 1998 ARMIS 43-03 report to demonstrate the proposed 2 percent materiality threshold and the related 5 percent of materiality for individual transactions.

There are other measures the Bureau could take to streamline the Part 64 audit process which USTA proposed at the Workshop. These measures include: performing audits every other year based on one year's data instead of every year; returning to a Compliance audit instead of a Fairly Presents audit (The Part 64 audit originally was a Compliance audit designed to test the process rather than the numbers.); providing for rotational testing so that the same items do not have to be tested each time; adopting a \$250,000 materiality threshold for requiring the calculation of estimated fair market value for affiliate transactions (A fully distributed cost transaction that totals \$250,000 or less should not be required to be compared to estimated fair market value. A better approach would be to eliminate any estimated fair market value calculation.); expanding the Service Company Exemption to allow use of fully distributed cost without the need to calculate estimated fair market value to include Operating Telephone Company sales to Service Companies (The current exemption only includes Operating Telephone Company purchases from Service Companies. The exemption should also accommodate those LECs that have services organizations with the Operating Telephone Company); and, lowering the benchmark for defining prevailing price by using unaffiliated sales of greater than 5 percent or greater than 10 percent instead of the current benchmark of greater than 50 percent of total sales.

Attachment 3 demonstrates that the level of shared investment does not justify the costly preparation and filing of the ARMIS 495 reports. These reports should be eliminated. In addition, the amount of Total Central Office and Outside Plant Investment supporting nonregulated activities (direct as well as shared), also included in ARMIS, is likewise a small portion of total investment. USTA also proposed at the workshop that the current requirements to forecast usage for Central Office and Outside Plant assets and to file the ARMIS 495 A and B reports be eliminated. Allocations based on actuals (those used to allocate plant maintenance and repair) can be used to allocate the related investment.

At the workshop, one participant suggested that forecasting be retained because it was the only forward-looking item in the Part 64 process. Forecasting usage of dollars that appear on the books of account of incumbent LECs is not the same as the forward looking costs which the

Commission has adopted for purposes of universal service. The Commission has determined that the cost of universal service network assets is not the cost that appears on the books of account, but is instead the cost of a new network that uses "current cost of purchasing facilities and equipment such as switches and digital loop carriers."<sup>2</sup> Part 64 forecasts are used to apportion LEC booked (historical) central office and outside plant dollars. There is no justification for continuing to prepare and file these reports.

Finally, during the workshop, USTA demonstrated that eliminating the expense matrix will not change the account to which costs are journalized. All carriers, not just the incumbent LECs, are required to supply data related to pole attachments to state commissions. Incumbent LECs will continue to provide the information required for pole attachment computations just as those companies who are not required to maintain regulatory accounts provide that information.

There are a number of other items which the Bureau should consider to streamline and eliminate unnecessary accounting and reporting requirements. In the near term, USTA recommends that the Bureau include the following:

- Depreciation. The Commission should forbear from regulating depreciation as requested by USTA in its Petition for Forbearance filed September 21, 1998 in WT Docket No. 96-198. Forbearance of depreciation regulation is long overdue. This would enable incumbent LECs to use Generally Accepted Accounting Principles (GAAP).
- Class B Accounting and Reporting. The Commission should allow all incumbent LECs to use Class B accounting. This would reduce the number of FCC prescribed accounts from 261 to 109 without changing the Commission's cost allocation rules at Sections 64.901 through 64.904. Class B accounts can be used to separate costs between regulated and nonregulated operations. Part 64 cost allocation results are used in Part 36, which has always been at a Class B level. Using Class B accounting will facilitate streamlining of the ARMIS 43-01, 43-02, 43-03 and 43-04 reports. Attachment 5 describes USTA's proposal to combine these reports. In addition, the Bureau should eliminate sub account requirements for the current Class B accounts for Inventories (1220), Nonregulated Investments (1406) and for the current Class A accounts for Office Equipment (2123), Electro-mechanical Switching (2215) and Radio Systems (2231). The Bureau should also eliminate the Part 32 Jurisdictional Difference Accounts (1500, 4370 and 7910). These accounts are not used for regulatory oversight at the federal level as the accounts contain totals of the details already provided to state commissions relative to state accounting differences.
- Pre-Notification. The pre-notification requirements to journalize GAAP-required unusual items and contingent liabilities should be eliminated. These entries are made

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<sup>2</sup> Federal State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157 (rel. May 8, 1997) at ¶ 250(3).

to accounts that are not included in the ratemaking process and are entries that are required to be made as a result of GAAP. Pre-notification should no longer be necessary to classify property as held for future use if the period held exceeds two years, nor should Commission approval be required to set up temporary/experimental accounts. Finally, Commission pre-approval should not be required to adopt new Financial Accounting Standards Board (FASB) approved changes to GAAP. The FASB provides a process through which proposed GAAP changes are exposed for debate, discussion and evaluation. Companies report adoption of new FASB statements on both the 10-K report and the current ARMIS 43-02. Requiring additional Commission approval delays implementation on the regulated books and creates additional, bifurcated recordkeeping and accounting processes for incumbent LECs. Attachment 6 provides the changes to Part 32 regarding pre-notification.

- **Specific Use of GAAP for Selected Part 32 Items.** The Bureau should use GAAP for inventories of material and supplies and station apparatus, for determining the cost of construction, for deferred tax accounting, for determining Part 32 materiality and to eliminate the requirement to transfer projects suspended for six months or more (LECs could simply indicate that AFUDC should not be calculated). Attachment 7 contains the changes to the Part 32 rules to rely on GAAP in these areas.
- **Subsidiary Records.** The Part 32 requirement to keep a subsidiary record for each nonregulated revenue item should be eliminated. This would eliminate hundreds of additional records kept by incumbent LECs to support Account 5280 – Nonregulated Revenue. Regulated revenue is not currently kept at that level of detail. The property record requirements should be streamlined to enable incumbent LECs to maintain subsidiary records at a level of detail which is necessary to run the business. On average, BOCs maintain in excess of 50 million property records due to regulatory requirements as compared to companies not subject to Part 32 property record requirements which only maintain, on average, less than 1 million records.<sup>3</sup> Attachment 8 contains the rules language to replace Section 32.2000. Finally, the Class A requirement to keep a subsidiary record for metallic and nonmetallic in Accounts 2421 and 2425 should be eliminated.
- **Transactions With Affiliates for Nonregulated Activities.** Affiliate transactions that are accounted for as a nonregulated activity pursuant to the Part 64 cost hierarchy should not be subject to a second set of rules in Section 32.27. Affiliate transactions that are accounted for as a nonregulated activity are those transactions that are journalized on the incumbent LECs' books of account to a Part 64 cost pool that directs all the costs for that affiliate transaction to nonregulated. Because the dollars for affiliate transactions accounted for as nonregulated activities are assigned directly to nonregulated, the ratepayer does not benefit from a sale to an affiliate nor does the

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<sup>3</sup> Letter from Carl R. Geppert, Arthur Andersen LLP, CC Docket No. 98-81, ASD File No. 98-64 and CC Docket No. 98-177, filed July 15, 1998.

ratepayer incur the cost of a purchase from an affiliate. Transactions between a Section 272 affiliate and an Operating Telephone Company are already subject to more stringent accounting, disclosure and nondiscrimination safeguards. Affiliate transactions journalized to common or regulated Part 64 cost pools would continue to follow the Section 32.27 affiliate transaction rules.

- De Minimis Nonregulated Activity. De minimis nonregulated activity should be accounted for as regulated incidental activity. Incumbent LECs have not been permitted to add to their list of Incidental Activities in their Cost Allocation Manuals (CAMs) since the list was originally submitted. LECs should be allowed to update Section III of the CAM with activities that are de minimis so long as the activities do not exceed the one percent cap on total revenue.
- Tariffed Incidental InterLATA Services. Tariffed, incidental interLATA services should be accounted for as regulated. The tariff process already provides sufficient ratepayer protection.
- Part 64 CAM. Streamlining the Part 64 CAM requirements are long overdue because the majority of companies that must file CAM changes are price cap regulated. For example, the Part 64 studies should be rotated so that they are not performed every year. The General Allocator should not be required to be calculated on a monthly basis. RAO 19 should be changed to eliminate the product matrix in Section II of the CAM. The fifteen day pre-implementation filing for time reporting and cost allocation changes should be eliminated. CAMs should be filed annually at the end of the year. Quantification of CAM changes should no longer be required. The estimated value of the CAM change has no impact on prices set pursuant to price cap regulation.

While the above list of changes should be implemented immediately, there are other long term changes which the Bureau should begin to consider. Consideration should be given to moving the codification of Section 254(k) of the Telecommunications Act of 1996 from Part 64 to Part 54 of the Rules. As the Commission has stated, all telecommunications carriers are subject to the statutory prohibition against cross subsidy.<sup>4</sup> However, all carriers are not subject to Part 64. The Part 54 rules were developed to implement Section 254 of the Act. Section 254 also applies to all telecommunications carriers. Section 254(k) should be codified in Part 54 of the Rules.

With the increase of competition and the convergence of multiple service offerings occurring in the telecommunications industry, special, uniform regulatory accounting and reporting requirements for incumbent LECs no longer makes sense. The Bureau should initiate a process to permit incumbent LECs to begin the transition from Part 32 accounts to GAAP and to

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<sup>4</sup> Implementation of Section 254(k) of the Communications Act of 1934, as Amended, FCC 97-163, Order (rel. May 8, 1997) at ¶ 9.

eliminate the Part 64 cost allocation requirements. For financial monitoring purposes, the Bureau should begin a process whereby incumbent LECs utilize Income Statements and Balance Sheets similar to those included in the 10-K rather than ARMIS. As Commissioner Powell recently noted, "making competition a precondition for deregulation also ignores the fact that continued regulation imposes a direct opportunity cost on the competitive process, one that is difficult to quantify, but equally difficult to ignore... Regulation interjects the regulator between commercial providers and their consumers and thus fundamentally infringes on the key relationships that make markets work... We policy-makers should pursue deregulation, whether or not we feel we have reached some 'competitive destination'."<sup>5</sup>

Chairman Kennard has stated that "my job is to set the stage for competition in all sectors of the telecommunications marketplace... I don't pick winners. I don't pick losers. Instead, I make sure that the playing field is level and the goalposts are the same height and that the rules of the game keep up with the changing times."<sup>6</sup> The times have changed and the rules for incumbent LECs have not kept pace. Accounting rules and reporting requirements should not present a handicap for participation in the evolving telecommunications market. All incumbent LECs require major reforms in these areas.

USTA appreciates the opportunity provided by the Accounting Safeguards Division and the Common Carrier Bureau staff to present its recommendations and looks forward to continuing to work with the staff on these important issues.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Linda L. Kent". The signature is fluid and cursive, with a large initial "L" and "K".

Linda L. Kent  
Associate General Counsel

Attachments

cc: Larry Strickling  
Ken Moran  
Tim Peterson  
Jo Ann Lucanik

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<sup>5</sup> Remarks of Commissioner Powell May 27, 1998 before the Federal Communications Bar Association, Washington, D.C.

<sup>6</sup> Remarks of Chairman Kennard March 12, 1998 to the Legg Mason Telecom Investment Precursors Workshop, Washington, D.C.

# ATTACHMENT 1

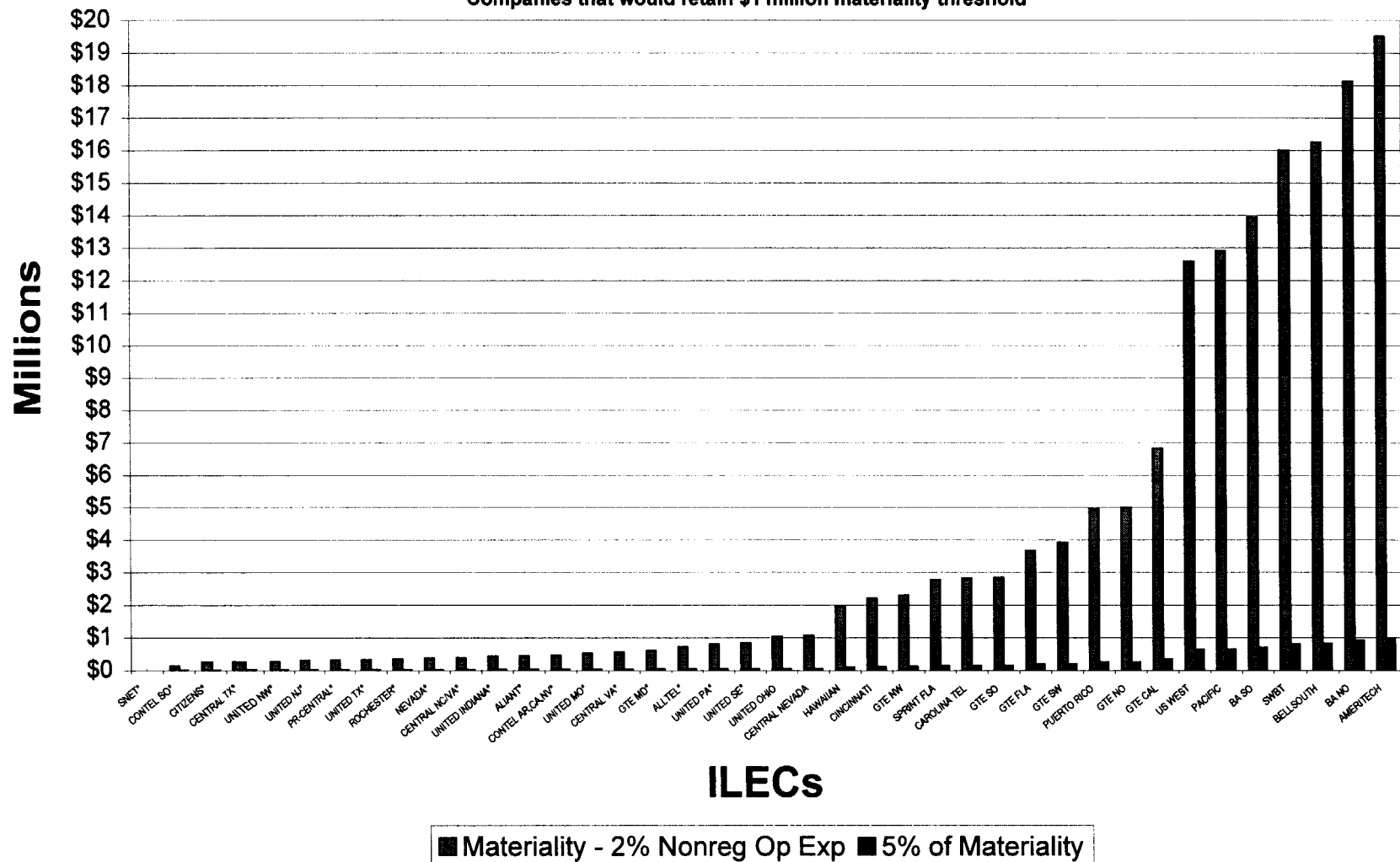
ARMIS 43-02		10K	
Filing Entity		Filing Entity	
Carrier	Operating Company* Study Area	Operating Company* Study Area	Operating Company* Study Area
<b><u>Ameritech</u></b>			
Illinois Bell	X		X
Indiana Bell	X		X
Michigan Bell	X		X
Ohio Bell	X		X
Wisconsin Bell	X		X
<b><u>Bell Atlantic</u></b>			
Bell Atlantic- DC	X		X
Bell Atlantic- MD	X		X
Bell Atlantic- VA	X		X
Bell Atlantic- WV	X		X
Bell Atlantic- Delaware	X		X
New Jersey Bell	X		X
Bell of PA	X		X
New Eng. Tel	X	X	
New York Tel	X		X
<b><u>BellSouth</u></b>	X	X (Consolidated)	
<b><u>General Tel</u></b>			
General Tel- FL	X		X
General Tel- CA	X	X	
General Tel- HI	X		X
General Tel- MIDW	X	Does not file a 10K Report	
General Tel- NORT	X	X	
General Tel- NW	X	X	
General Tel- SO	X	X	
General Tel- SW	X	X	
Contel of the South	X	Does not file a 10K Report	
<b><u>Rochester</u></b>			
Frontier	X		X
<b><u>SBC</u></b>			
Southwestern Bell	X	X	
Pacific Bell	X		X
Nevada Bell	X	Does not file a 10K Report	
So New England Tel	X	Does not file a 10K Report	
<b><u>U S West</u></b>	X	X	

\*Includes more than one study area

## ATTACHMENT 2

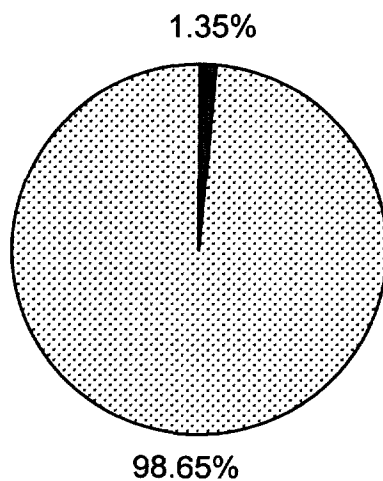
# Part 64 Audit Materiality Threshold

\* Companies that would retain \$1 million materiality threshold

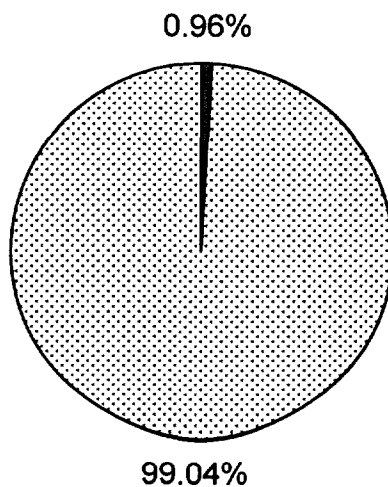




**ATTACHMENT 3**  
**Shared Network Investment**  
**Central Office and Outside Plant**  
**1998 (RBOCs and GTE)**

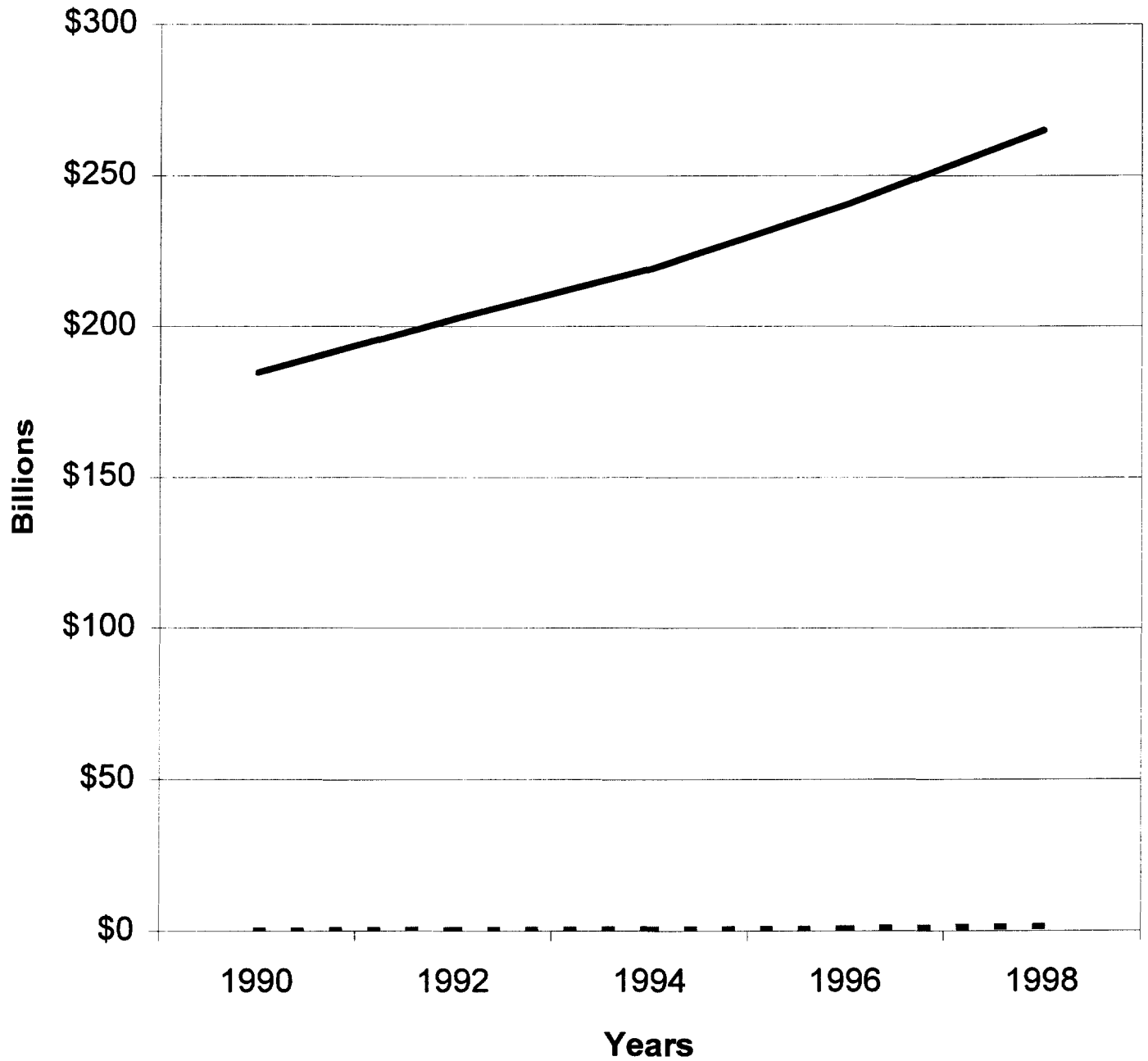


- Actual Nonreg Portion of Shared Network
- ▨ Resulting Regulated Portion of Shared Network



- Forecast Nonreg Portion of Shared Network
- ▨ Resulting Regulated Portion of Shared Network

**ATTACHMENT 4**  
**Central Office and Outside Plant Gross  
Investment  
(Shared and Direct)**



— Regulated - - Nonregulated

**ATTACHMENT 5**

**USTA'S ARMIS PROPOSAL FOR THE COMBINED FINANCIAL REPORTS**  
**(See USTA Comments to CC Docket 98-117)**

Company: Illinois Bell Study Area: Illinois Period: 1995 COSA: LBIL				Annual Report 43-00 (Replaces 43-01 through 43-04)						Page 1 of 2	
Table I - Net Investment (Dollars in Thousands)				Assets/Investment							
Row	Part 32 Class B Accounts	Classification	A Total	B Nonreg	C Adjustments	D=A-B-C Subject to Separations	E Total Interstate	F Interstate Access	G Billing & Collection	H IX	I=D-E State
Assets											
2010	1130-1160	Cash and Equivalents	263	-	-	-	-	-	-	-	-
2020	1180-1210	Receivables, Net	815,223	-	-	-	-	-	-	-	-
2030	1220	Materials and Supplies	17,786	7,892	(752)	10,646	2,836	2,835	-	1	7,810
2040	1290-1350	Prepaid and Other	30,142	-	-	-	-	-	-	-	-
2050	2001	Plant in Service	8,462,100	138,943	122,783	8,200,394	2,078,814	2,078,001	-	812	8,121,580
2060	2002	Property Held for Future Use	1,163	104	(48)	1,107	280	280	-	-	827
2070	2003	Plant Under Construction	60,821	717	(29,879)	89,983	22,673	22,664	-	9	87,310
2080	2008	Nonoperating Plant	8,554	-	-	-	-	-	-	-	-
2090	3100-3600 less 3300	Less Accumulated Deprec- Operating	3,769,777	73,086	136,785	3,559,906	908,685	908,334	-	351	2,651,221
2100	3300	Less Accumulated Deprec- Nonoper	2,453	-	-	-	-	-	-	-	-
2110	1401	Investments in Affiliated Companies	84,229	-	-	-	-	-	-	-	-
2120	1402	Investments in Non-affiliates	1,258	-	1,258	-	-	-	-	-	-
2130	1406-1408	Other Investments	28,917	-	-	-	-	-	-	-	-
2140	1410	Other Noncurrent Assets	265,800	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2150	1437	Other Assets and Deferred Chgs	99,947	4,177	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2160	1438	Deferred Maint. & Retirements	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2170	1439	Other Deferred Charges	62,969	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2180	Subtotal (1437 to 1439)	Total Deferred Charges	162,916	4,177	104,886	53,853	13,545	13,540	-	5	40,292
2190		Total Assets	6,166,942								
2200		Cash Working Capital	N/A	N/A	N/A	N/A	(6,315)	(6,313)	-	(2)	-
2210		FCC Investment Adjustment	N/A	N/A	N/A	N/A	38,596	38,580	-	16	-
2220		Total Investment (Part 65)	8,870,639	151,833	198,228	8,355,883	2,150,429	2,149,587	-	841	6,237,819
NUMBERS ARE FOR ILLUSTRATIVE PURPOSES ONLY											

## ATTACHMENT 5

USTA'S ARMIS PROPOSAL FOR THE COMBINED FINANCIAL REPORTS  
(See USTA Comments to CC Docket 98-117)

Company: Illinois Bell Study Area: Illinois Period: 1995 COA: LBIL			Annual Report 43-00 (Replaces 43-01 through 43-04)							Page 2 of 2		
			Table I - Net Investment (Dollars in Thousands)								Liabilities/Reserves	
Row	Part 32 Class B Accounts	Classification	A Total	B Nonreg	C Adjustments	D=A-B-C Subject to Separations	E Total Interstate	F Interstate Access	G Billing & Collection	H IX	I=D-E State	
Liabilities and Shareowner's Equity												
2240	4020	Notes Payable	544,018	-	-	-	-	-	-	-	-	
2250	4050,4060	Other Current Maturities	1,273	-	-	-	-	-	-	-	-	
2260	4010	Accounts Payable	444,576	-	-	-	-	-	-	-	-	
2270	4040	Customers' Deposits	9,067	697	(4,555)	12,925	3,254	3,253	-	1	9,671	
2280	4030,70,80,4130	Other Current Liabilities (Excl FIT)	104,820	-	-	-	-	-	-	-	-	
2290	4120	Other Accrued Liabilities	290,604	5,777	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2300	4210,4270	Long-Term Debt	1,062,590	-	-	-	-	-	-	-	-	
2310	4100,4340	Accumulated Deferred FIT - Operating	794,149	11,327	20,358	762,464	184,447	184,350	-	97	578,017	
2320	4110,4350	Accumulated Deferred FIT - Nonoperating	(864)	-	-	-	-	-	-	-	-	
2330	4320,4330	Unamortized Investment Tax Credits	88,140	-	-	-	-	-	-	-	-	
2340	4360	Other Deferred Credits	53,381	3,053	17,728	32,600	8,235	8,232	-	3	24,364	
2350	4310	Other Long-Term Liabilities	1,538,051	45,139	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2360	4340,4361	Deferred Tax Liabilities	89,947	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2370	Subtotal (4310,40,61)	Other L-T Liab & Defer Cts - Net	1,637,998	45,139	179,801	1,458,197	84,333	84,298	-	34	1,373,865	
2380	4510	Capital Stock	1,638,762	-	-	-	-	-	-	-	-	
2390	4520	Other Paid-In Capital	65,974	-	-	-	-	-	-	-	-	
2400	4550	Retained Earnings	(465,756)	-	-	-	-	-	-	-	-	
2410		Total Liabilities and Shareowner's Equity	6,268,733									
2420		Total Reserves (Part 65)	6,264,372	88,163	350,117	5,826,092	1,188,954	1,188,467	-	486	4,637,138	
2430		Total Reserves (Joint Cost)	6,455,028	139,079	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2440		Average Net Investment (Part 65)	N/A	N/A	N/A	2,529,891	961,475	961,120	-	355	1,600,681	
NUMBERS ARE FOR ILLUSTRATIVE PURPOSES ONLY												

**ATTACHMENT 5**

USTA'S ARMIS PROPOSAL FOR THE COMBINED FINANCIAL REPORTS  
(See USTA Comments to CC Docket 98-117)

Company: Illinois Bell		Annual Report 43-00 (Replaces 43-01 through 43-04)									
Study Area: Illinois											
Period: 1995		Table H - Statement of Income (Dollars in Thousands)									
COSA: L&L											
Part 32 Class B Accounts											
Row		Classification	A Total	B Nonreg	C Adjustments	D=A-B-C Subject to Separations	E Total Interstate	F Interstate Access	G Billing & Collection	H IA	I=B-E State
<b>Revenues:</b>											
1010	5000	Local Service	1,963,518	-	-	1,963,518	-	-	-	-	1,963,518
1020	5080	Network Access Services	855,788	-	(12,367)	868,155	768,411	767,532	-	879	99,744
1030	5100	Long Distance Services	248,236	-	12,859	233,377	43,249	-	-	43,249	190,128
1040	5200	Miscellaneous	178,870	-	5	178,865	27,837	1,877	25,959	1	151,028
1050	5280	Nonregulated	165,073	165,073	-	-	-	-	-	-	-
1060	5300	Uncollectibles	44,641	2,329	(1)	42,313	1,324	1,326	-	(2)	40,989
1060		Net Revenues	3,364,844	182,744	498	3,201,602	838,173	768,083	25,959	44,131	2,363,429
<b>Expenses:</b>											
1110	6110-6410	Total Plant Specific	718,905	87,758	7	631,140	158,041	157,989	-	53	473,099
1120	6510-6540	Total Plant Nonspecific	289,857	21,315	-	268,542	64,909	58,069	-	6,841	203,633
1130	6560	Depreciation & Amortization	590,280	9,693	-	580,587	145,722	145,638	-	82	434,865
1140	6610-6620	Customer Operations	577,461	59,987	370	528,104	98,131	81,652	12,095	4,385	427,973
1150	6710-6790	Corporate Operations	289,326	20,606	-	268,720	57,124	53,027	2,128	1,970	192,774
1160		Total Operating Expenses	2,445,829	180,359	377	2,255,093	523,927	496,375	14,221	13,331	1,732,344
1210	7100,7990	Other Oper/Nonreg Income/Expense	145	627	(1)	(481)	(127)	(126)	-	-	(354)
1220	7210-7250	Operating Taxes	325,813	(8,428)	8,842	376,407	110,912	94,462	523	12,002	265,290
1230	7310-7370	Nonoper Income/Expense	51,875	(214)	52,841	(552)	(83)	(83)	-	-	(469)
1240	7410-7450	Nonoperating Taxes	17,544	-	17,544	-	-	-	-	-	-
1250	7510-7540	Interest Expense	120,726	1,724	8,842	110,160	39,496	39,480	-	16	70,920
1260	7600	Other	66,375	-	-	66,375	-	-	-	-	66,375
1270		FCC Expense Adjustment (Part 65)	-	-	-	-	668	668	-	-	-
1280		Total Expenses & Taxes (Part 65)	2,670,791	181,518	-	2,566,158	635,049	591,046	14,744	25,333	1,932,082
1290		Total Expenses & Taxes (Joint Cost)	2,773,973	183,242	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1300		Net Return (Part 65)	N/A	N/A	N/A	N/A	202,456	176,369	N/A	N/A	N/A
1310		Rate of Return (Part 65)	N/A	N/A	N/A	N/A	21.06%	(Note)	N/A	N/A	N/A
Note: All price cap companies should insert zero in Column F.											
NUMBERS ARE FOR ILLUSTRATIVE PURPOSES ONLY											

**ATTACHMENT 5**

**USTA'S ARMIS PROPOSAL FOR THE COMBINED FINANCIAL REPORTS**  
**(See USTA Comments to CC Docket 98-117)**

[illegible]

# ATTACHMENT 5

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## **ATTACHMENT 6**

### **ELIMINATE PRE-NOTIFICATION REQUIREMENTS**

#### **Unusual and Contingent Liabilities**

32.25 Unusual items and contingent liabilities.

Extraordinary items, prior period adjustments and contingent liabilities shall be recorded in the company's books of account in accordance with the requirements of generally accepted accounting principles (GAAP). .

#### **Property Held for Future Use Longer than Two Years**

32.2002 Property held for future telecommunications use.

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(b) Deleted

#### **Temporary/Experimental Accounts**

32.13 Accounts - General

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(a)(3) Deleted

#### **FASB Approved Changes to GAAP**

32.16 Changes in accounting standards.

(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles.

(b) The changes in accounting standards will not necessarily be binding on the ratemaking practices of the various state commissions.



## **ATTACHMENT 7**

### **SPECIFIC USE OF GAAP FOR SELECTED ITEMS**

#### **Inventories and Supplies and Station Apparatus**

##### **32.1220 Inventories**

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(h) Periodic inventories of materials and supplies shall be taken in accordance with GAAP and the adjustments to this account shall be charged or credited to Account 6512 Provisioning Expense (Note: For Class B accounting this would say Account 6510 Other Property, Plant and Equipment Expense.)

##### **32.2311 Station Apparatus**

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(f) Periodic inventories of station apparatus shall be taken in accordance with GAAP.

#### **Cost of Construction**

##### **32.2000 Instructions for Telecommunication Plant Accounts**

See Attachment 8 for a replacement of 32.2000

#### **Income Taxes**

##### **32.4361 Deferred tax regulatory liability.**

(a) This account shall include amounts of probable future net reductions in revenues (future revenue reductions in excess of future revenue increases) attributable to:

1- future net decreases to taxes payable related to the tax effects of temporary differences accounted for under the flow-through method (future decreases in excess of future increases).

2 - the impact of tax rate decreases in excess of tax rate increases on net deferred tax liabilities (deferred tax liabilities in excess of deferred tax assets) for those temporary differences underlying its existing balance

3 - the impact of tax rate increases in excess of tax rate decreases on net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) for those temporary differences underlying its existing balance.

As net reductions in revenue occur, amounts recorded in this account shall be reduced with a debit entry and a credit entry to account 4340.

## ATTACHMENT 7 (Continued)

### 32.1437 Deferred tax regulatory asset.

(a) This account shall include amounts of probable future net increases in revenues (future revenue increases in excess of future revenue decreases) attributable to:

1 - future net increases to taxes payable related to the tax effects of temporary differences accounted for under the flow-through method (future increases in excess of future decreases).

2 - the impact of tax rate increases in excess of tax rate decreases on net deferred tax liabilities (deferred tax liabilities in excess of deferred tax assets) for those temporary differences underlying its existing balance

3 - the impact of tax rate decreases in excess of tax rate increases on net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) for those temporary differences underlying its existing balance.

As net increases in revenue occur, amounts recorded in this account shall be reduced with a credit entry and a debit entry to account 4340.

### 32.4340 Net noncurrent deferred operating income taxes.

Account 4340 shall include the deferred tax effects of all unreversed temporary differences (i.e., SFAS No. 109 requires that unreversed temporary differences should be stated at the rate the tax will be paid) as defined under SFAS No. 109.

### 32.4341 Net deferred tax liability adjustments.

Deleted

## **Materiality**

### 32.26 Materiality.

Companies shall follow this system of accounts in recording all financial and statistical data. When errors occur or better estimates become available corrections should be made based on the GAAP criteria of materiality.

## **Transfer of Suspended Projects**

### 32.2003 Telecommunications Plant Under Construction

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(c) If a construction project has been suspended for six months or more, companies shall discontinue capitalization of AFUDC until construction is resumed. If a project is abandoned, the cost included in this account shall be charged to Account 7370, Special Charges (Note: For Class B accounting this would say Account 7300, Nonoperating Income and Expense.)

## ATTACHMENT 8

### STREAMLINE PLANT ACCOUNTING AND RECORDS

#### § 32.2000 Instructions for telecommunications plant accounts.

##### (a) Purpose of telecommunications plant accounts.

(1) The telecommunications plant accounts (2001 to 2007 inclusive) are designed to show the investment in the company's tangible and intangible telecommunications plant which ordinarily has a service life of more than one year, including such plant whether used by the company or others in providing telecommunications service.

(2) The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of telecommunications plant shall be credited to the accounts charged with the cost of such construction. Amounts of non-recurring reimbursements based on the cost of plant or equipment furnished in rendering service to a customer shall be credited to the accounts charged with the cost of the plant or equipment. Amounts received for construction which are ultimately to be repaid wholly or in part, shall be credited to Account 4360, Other Deferred Credits; when final determination has been made as to the amount to be returned any unrefunded amounts shall be credited to the accounts charged with the cost of such construction. Amounts received for the construction of plant, the ownership of which rests with or will revert to others, shall be credited to the accounts charged with the cost of such construction. (Note also Account 7110, Income from Custom Work.)

(3) When telecommunications plant ordinarily having a service life of more than one year is installed for temporary use in providing telecommunications service, it shall be accounted for in the same manner as plant having a service life of more than one year.

(4) The cost of individual items of equipment having a life less than one year or with an original cost less than an expense limit as designated by a Company consistent with Generally Accepted Accounting Principles, shall be charged to the applicable Plant Specific Operations Expense accounts.

##### (b) The accounting for property plant and equipment is to be recorded at original cost:

(1) Depreciation and amortization of plant acquired shall be credited to Account 3100, Accumulated Depreciation; or Account 3200 Accumulated Depreciation-Held for Future Telecommunications Use; 3400, Accumulated Amortization-Tangible, 3410, Accumulated Amortization-Capitalized Leases; 3420 Accumulated Amortization-Leasehold Improvements; 3500, Accumulated Amortization-Intangibles; and 3600, Accumulated Amortization-Other, and debited to Account 1439.

##### c) Cost of construction.

(1) In accounting for construction costs, the utility shall charge to the telecommunications plant accounts, where applicable, all direct and indirect costs: Labor, Engineering, Material and Supplies, Transportation, Contract Work, Protection, Privileges, Taxes, Allowance for Funds Used During Construction, and Other Related Costs.

## ATTACHMENT 8 (Continued)

### (d) Telecommunications plant retired

(1) Telecommunications plant accounts shall at all times disclose the original cost of all property in service. When any item of property subject to plant retirement accounting is worn out, lost, sold, destroyed, abandoned, surrendered upon lapse of title, becomes permanently unserviceable, is withdrawn or for any other reason is retired from service, the plant accounts applicable to that item shall be credited with the original cost of the plant retired whether replaced or not (except as provided for minor items).

(2) When the telecommunications plant is sold together with traffic associated therewith, the original cost of the property shall be credited to the applicable plant accounts and the estimated amounts carried with respect thereto in the accumulated depreciation and amortization accounts shall be charged to such accumulated accounts. The difference, if any between the net amount of such debit and credit items and the consideration received (less commissions and other expenses of making the sale) for the property shall be included in Account 7350, Gains and Losses from Disposition of Certain Property. The accounting for depreciable telecommunications plant sold without the traffic associated therewith shall be in accordance with the accounting provided in § 32.3100(c) of this subpart.

### (e) Basic property records must be

- (i) subject to internal accounting controls,
- (ii) auditable,
- (iii) equal in the aggregate to the total investment reflected in the financial property control accounts, and
- (iv) maintained throughout the life of the property.

### (f) Standards for Maintaining Continuing Property Records

(1) Property records shall be maintained by original cost where appropriate. Otherwise averaging or estimates as described below shall be used.

#### (2) Averaging.

Average costs may be developed for plant consisting of a large number of similar units. Units of similar size and type within each specified account may be grouped.

#### (3) Estimates.

In cases where the actual original cost of property cannot be ascertained, such as pricing an inventory for the initial entry of a continuing property record or the pricing of an acquisition for which the continuing property record has not been maintained, the original cost may be estimated. Any estimated original cost shall be consistent with the accounting practices in effect at the time the property was constructed.

32.2000f(5)-(9).

**ATTACHMENT 8 (Continued)**

(g) Depreciation accounting--

(1) Computation of depreciation rates.

(i) Depreciation percentage and/or amortization rates shall be computed in conformity with a group plan of accounting for depreciation and shall be such that the loss in service value of the property, except for losses excluded under the definition of depreciation, may be distributed under the straight-line method during the service life of the property.

(2) Depreciation charges.

(i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges.

(ii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts.

(iii) In certain circumstances, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over appropriate periods.